

## 5. OVERSEAS INVESTMENT UNDERTAKEN BY MALAYSIAN COMPANIES

Over the last decade, there has been an increase in foreign investment overseas by Malaysian companies. The Malaysian Government has been actively encouraging the local companies to venture abroad, particularly the other developing and less developed countries. There have been numerous trade delegations to these countries, some were led by the Prime Minister himself.

### 5.1 NATURE OF FOREIGN DIRECT INVESTMENT BY MALAYSIAN COMPANIES

According to the Bank Negara Malaysia's Balance of Payments departmental statistics, the total foreign direct investment for the period 1981 - 1989 has increased moderately at an annual average of 6% to reach RM740 million. These investments accelerated to RM1.4 billion in 1990, RM1.1 billion in 1991, and RM1.3 billion in 1992. Total investments shot up to RM3.5 billion in 1993, a dramatic 173% over that of 1992. The pattern of foreign direct investment by Malaysian entrepreneurs for the period 1980 - 1996 is as shown in Table 5.1 below.

The current account of the balance of payments is envisaged to record a lower deficit of RM14.8 billion or 6.3% of GNP in 1996, against a deficit of RM18.7 billion or 9% of GNP in 1995. In 1996, the net inflow of foreign direct investment is lower at RM10.8 billion due to significant increase in reverse investment by Malaysians of 14.1% from RM6.4 billion in 1995 to RM7.3 billion in 1996. (*Economic Report 1996/96, Ministry of Finance Malaysia*).

Table 5.1 : Foreign Direct Investment By Malaysian Entrepreneurs (RM million)

| Year | Direct Investment | Purchase of Properties | Loan Extended | Total FDI |
|------|-------------------|------------------------|---------------|-----------|
| 1980 | 72                | 246                    | 120           | 438       |
| 1981 | 278               | 179                    | 218           | 675       |
| 1982 | 278               | 170                    | 160           | 607       |
| 1983 | 201               | 117                    | 206           | 524       |
| 1984 | 233               | 135                    | 201           | 568       |
| 1985 | 203               | 57                     | 261           | 521       |
| 1986 | 274               | 45                     | 324           | 643       |
| 1987 | 172               | 30                     | 339           | 540       |
| 1988 | 107               | 64                     | 349           | 519       |
| 1989 | 302               | 25                     | 413           | 740       |
| 1990 | 468               | 86                     | 887           | 1,442     |
| 1991 | 582               | 67                     | 476           | 1,126     |
| 1992 | 765               | 58                     | 441           | 1,264     |
| 1993 |                   |                        |               | 3,500     |
| 1994 |                   |                        |               | 4,500     |
| 1995 |                   |                        |               | 6,400     |
| 1996 |                   |                        |               | 7,300     |

Source : Bank Negara

## 5.2 EXTENT OF MALAYSIAN OVERSEAS INVESTMENTS

Based on Bank Negara Report and as tabulated in Table 5.2 below, the ASEAN countries, Asian countries, the United States of America, the United Kingdom and Australia, are the targets of the Malaysian overseas investments. Total equity investment in the ASEAN countries was RM292 million or 40 per cent of the total in 1991; RM284 million or 26 per cent in 1992; and RM1.09 billion or 41 per cent in 1993.

Among the ASEAN countries, Singapore is the strong favorite over the others, with a sharp jump over RM1 billion in 1993. Among the Asian countries, Hong Kong and China are popular among the Malaysian investors. For China, the investment in equity has increased sharply, from RM8 million in 1991 to RM106 million in 1993. The Republic of Vietnam is also steadily gaining popularity among the Malaysian investors.

Among the EC countries, the United Kingdom is the favorite for the Malaysian investments. In 1993, up to the third quarter, the total investment in the EC was RM287 million, of which UK accounted for RM275 million.

Table 5.2 : Direction of Funds (Outward) Flow for Equity Investment (RM million)  
(1991 to 3rd Quarter 1994)

| Country                     | 1991 | 1992  | 1993  | 1994  |
|-----------------------------|------|-------|-------|-------|
| Singapore                   | 284  | 249   | 1,012 | 535   |
| Thailand                    | 5    | 22    | 20    | 17    |
| Indonesia                   | 1    | 8     | 7     | 10    |
| Philippines                 | 1    | 5     | 52    | 33    |
| Brunei                      | 1    | 0     | -     | -     |
| ASEAN Countries             | 292  | 284   | 1,091 | 595   |
| Japan                       | 27   | 225   | 34    | 41    |
| People's Republic of China  | 8    | 16    | 106   | 99    |
| Hong Kong                   | 46   | 123   | 343   | 271   |
| Republic of Korea           | 1    | 0     | -     | -     |
| Taiwan                      | 25   | 16    | 17    | 34    |
| Republic of Vietnam         | 0    | 13    | 8     | 48    |
| Australia                   | 46   | 77    | 46    | 111   |
| New Zealand                 | 3    | 3     | 6     | 3     |
| United States of America    | 113  | 140   | 496   | 142   |
| Canada                      | 5    | 6     | 5     | 1     |
| Switzerland                 | 4    | 45    | 1     | 2     |
| United Kingdom              | 72   | 59    | 216   | 275   |
| Federal Republic of Germany | 2    | 4     | 4     | 4     |
| Netherlands                 | 0    | 5     | 30    | 5     |
| France                      | -    | 2     | 3     | -     |
| Other Countries in the EC   | 8    | 2     | 4     | 3     |
| European Community (EC)     | 82   | 72    | 257   | 287   |
| Rest of the World           | 47   | 80    | 170   | 98    |
| TOTAL                       | 699  | 1,100 | 2,580 | 1,732 |

Source : Bank Negara

Recently, certain South countries, such as South Africa, have also gained popularity.

In the period 1989 - 1991, a total of 121 companies and individuals had sought approval for 175 projects overseas.

Value and Number of Approved Projects According to Size  
(1989 - 1991)

| Size of Investment                    | 1989 |            | 1990 |            | 1991 |            |
|---------------------------------------|------|------------|------|------------|------|------------|
|                                       | No.  | RM million | No.  | RM million | No.  | RM million |
| Less than RM100,000                   | 11   | 0.5        | 7    | 0.3        | 4    | 0.1        |
| RM100,000 to less than RM500,000      | 12   | 2.3        | 14   | 3.0        | 6    | 1.6        |
| RM500,000 to less than RM1 million    | 4    | 2.7        | 10   | 5.7        | 2    | 1.3        |
| RM1 million to less than RM10 million | 9    | 22.8       | 17   | 62.6       | 15   | 44.1       |
| More than RM10 million                | 8    | 349.1      | 13   | 5,769      | 2    | 29.2       |
| TOTAL                                 | 44   | 377.4      | 61   | 5,840.6    | 29   | 76.3       |

Source : Bank Negara Malaysia

In 1989, only 7 percent of the total funds had been used for setting up business, compared to the remaining 93 percent for acquisitions and business expansions. This could probably be due to lack of confidence as well as experience in overseas ventures. Investors were then very cautious in their investment decisions and invested only in small projects of less than RM1 million. However, over time, confidence grew as well as experience. In 1991, 51 percent of the total funds approved was for the purpose of setting up subsidiaries on a joint-venture basis.

It appeared that while acquisitions and business expansions in 1989 involved large projects costing RM1 million or more, in 1990, most of the businesses acquired were large projects involving RM10 million or more. In 1990, approximately 28 percent of the projects approved cost between RM1 million to RM10 million, and approximately 21 percent cost more than RM10 million.

However, this trend was not followed through in 1991, when investors showed an inclination towards setting up businesses or expansions costing less than RM500,000, or medium-sized projects involving RM1 million to RM10 million. The trend could probably be explained in economic sense where it is better to convert representative offices to subsidiaries on a joint-venture basis with local partners in the host countries in order to optimise on the various benefits, including the sharing of expertise.